

Message Text

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ACTION NEA-07

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FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 3529

C O N F I D E N T I A L COLOMBO 3188

LIMDIS

EO 11652: GDS

TAGS:

SUBJ: GSL'S STANCE VIS-A-VIS IMF

REF: COLOMBO 2978

1. AT SOCIAL FUNCTION EARLIER THIS WEEK FINANCE MINISTER BANDARANAIKE TOLD AMB THAT, AFTER CLOSER EXAMINATION OF GSLS UNCOVERED SHORT-TERM FOREIGN EXCHANGE GAP, HE HAD REVISED FIGURE DOWNWARD TO \$30 MILLION. AFTER FURTHER STUDY, HE HAD ALSO DECIDED NOT TO PROCEED WITH HIS CURRENCY REFORMS AT THIS TIME.

2. CENTRAL BANK GOVERNOR TENNEKOON, WHO HAD JUST COME FROM BANDARANAIKES PRESENTATION TO VISITING IMF TEAM, TOLD AMB OCT 3 THAT GSL HAD UNDERSCORED THREE POINTS TO IMF. FIRST, GSL INTENDED TO REMOVE PHYSICAL BARRIERS TO MOVEMENT OF RICE WITHIN THE COUNTRY AND GENERALLY TO ENCOURAGE MARKET ECONOMY FOR RICE. SECOND, GSL HAD PASSED ON TO CONSUMERS SUBSTANTIAL AMOUNT OF INCREASED ENERGY COSTS WHICH HAD RESULTED FROM OPEC 10 PERCENT PRICE HIKE (SEE SEPTTEL). THIRD, ON BUDGETARY SIDE, GSL WOULD MAKE EVERY EFFORT TO BALANCE THE BUDGET WITHOUT GOING INTO BANKING SYSTEM FOR ADDITIONAL
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FUNDS. TENNEKOON ALSO SAID BANDARANAIKE HAD STRESSED

TO IMF TEAM THAT HE WAS WELL DISPOSED TOWARD PRIVATE SECTOR SO LONG AS IT MADE POSITIVE CONTRIBUTION TO COUNTRYS ECONOMIC GROWTH. IN TENNEKOONS VIEW, IMF TEAM, HEADED BY DOUGLAS SCOTT, WAS SYMPATHETIC TOWARD GSL AND TEAM BELIEVED THERE WERE GREATER PROSPECTS FOR ECONOMIC DEVELOPMENT AS RESULT OUSTER OF TROTSKYITES. ACCORDINGLY, THERE WAS GOOD PROSPECT THAT IMF WOULD APPROVE STANDBY AND WOULD ALSO GRANT OIL FACILITY ASSISTANCE.

4. ON PERSONAL NOTE, TENNEKON SAID PRIME MINISTER HAD SOUNDED HIM OUT RE HIS INTEREST IN SRI LANKA AMBASSADORSHIP TO FEDERAL REPUBLIC. HIS PERSONAL RELATIONSHIP WITH FELIX BANDARANAIKE HAD NOT BEEN PARTICULARLY GOOD IN PAST AND HE THEREFORE WAS CONSIDERING THE OFFER. HE FELT, HOWEVER, THAT IT WOULD BE DIFFICULT TO FIND REPLACEMENT WHO WOULD FILL DOMESTIC POLITICAL-BUREAUCRATIC REQUIREMENTS AND ALSO MAINTAIN CONFIDENCE OF INTERNATIONAL LENDING INSTITUTIONS AND COMMERCIAL BANKS.
VAN HOLLEN

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